

Liquor Control

MISSION STATEMENT

The mission of the Department of Liquor Control (DLC) is to provide efficient and quality wholesale and retail sales of beverage alcohol products while promoting moderation and responsible behavior in all phases of distribution and consumption. The department diligently promotes and obeys all laws and regulations governing beverage alcohol while generating revenue for the benefit of Montgomery County's General Fund.

BUDGET OVERVIEW

The total recommended FY06 Operating Budget for the Department of Liquor Control is \$29,963,000, a decrease of \$2,372,340 or 7.3 percent from the FY05 Approved Budget of \$32,335,340. Personnel Costs comprise 65.1 percent of the budget for 242 full-time positions and 60 part-time positions for 321.2 workyears. Operating Expenses and Capital Outlay account for the remaining 34.9 percent of the FY06 budget.

The above projections and proposed expenditures form the basis for working capital decisions concerning the Liquor Enterprise Fund.

The following information is provided to facilitate County Council and public input for final County Executive decisions on the determination of adequate working capital within, and use of resources in, the Liquor Enterprise Fund and net proceeds to be deposited to the General Fund. Consistent with Article 2B, Section 15-207, the County Executive must make resource allocation decisions for the Fund.

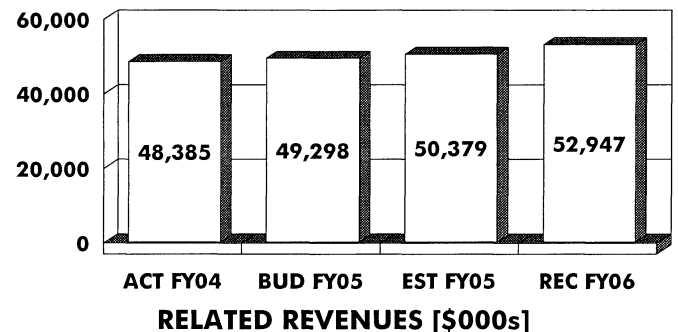
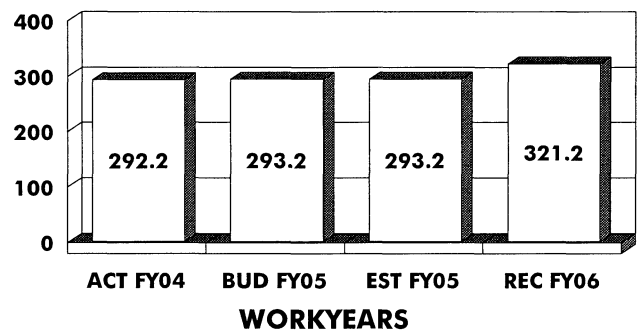
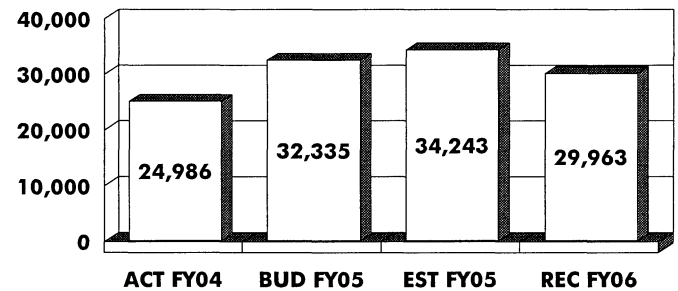
HIGHLIGHTS

- ❖ **Launched a public-education campaign designed to combat teen drinking. The two-year campaign titled "Parents Who Host, Lose the Most: Don't be a Party to Underaged Drinking" focuses on efforts to persuade parents and other adults not to provide alcohol for teenage parties.**
- ❖ **Provided free yearly spring training for wholesalers and other interested parties on a wide range of topics including; how to spot a fake ID; pairing wine with foods; how to promote responsible sales and service; and how to protect oneself as a business owner.**
- ❖ **Launched Ombudsman program to explore suggestions from employees, customers, citizens, and other stakeholders for possible implementation; investigate and work to bring about a fair resolution to any concerns.**
- ❖ **Implemented Virtual Private Network - VPN which allows offsite computers a secure connection to the**

Program Summary

	Expenditures	WYs
Warehouse Operations	6,282,760	66.9
Delivery Operations	5,083,200	72.7
Retail Sales Operations	14,213,490	148.6
Retail Contracted Operations	185,100	0.0
Community Outreach	157,570	1.8
Accounting and Inventory Systems	1,915,310	19.1
Information Management	1,375,120	9.6
Administration	750,450	2.5
Totals	29,963,000	321.2

Trends



Montgomery County Government domain. Contractors and key employees will be able to access the computer systems from remote locations.

PROGRAM CONTACTS

Contact Andrew Brown of the Department of Liquor Control at 240.777.1956 or Alison Dollar of the Office of Management and Budget at 240.777.2781 for more information regarding this department's operating budget.

PROGRAM DESCRIPTIONS

Warehouse Operations

This program involves management of the County's beverage alcohol warehouse and includes the purchase, receipt, and storage of over 14,000 different stock and special order items.

FY06 Recommended Changes

	Expenditures	WYs
FY05 Approved	5,560,210	59.7
FY06 CE Recommended	6,282,760	66.9

Delivery Operations

This program includes the distribution of distilled spirits, wine, and beer to licensed establishments and County retail stores.

FY06 Recommended Changes

	Expenditures	WYs
FY05 Approved	4,799,780	76.2
FY06 CE Recommended	5,083,200	72.7

Retail Sales Operations

This program oversees sales of distilled spirits, wine, and beer to off-sale retail customers through the operation of retail stores (22 County-staffed and operated and three contractor operated) located throughout Montgomery County.

FY06 Recommended Changes

- ❑ *On January 30, 2005, the Pike Store reverted to County operation. The estimated reversion date for the Muddy Branch Store is March 27, 2005. In FY06, there will be 24 County-staffed and operated retail stores and the Flower Avenue store will be the only contractor-staffed and operated store in Montgomery County.*

	Expenditures	WYs
FY05 Approved	12,237,040	125.1
FY06 CE Recommended	14,213,490	148.6

Retail Contracted Operations

Article 2B of the Annotated Code of Maryland allows the County to hire contractors to operate County liquor stores. The County must retain title to all retail stock until sold. The County Council adopted Council Resolution No. 12-452 on November 12, 1991, mandating that the County contract with qualified contractors to operate selected stores. The Kensington, Muddy Branch, and the Pike sites were selected for contracting, and in the Fall of 1992, contractor staff replaced the County

employees. In Fall 1994, the Flower Avenue store became a contractor-operated facility. In December 2000, the Kensington store reverted to County operation. State legislation allows the Director of the Department of Liquor Control to contract the operation of a retail outlet only with those persons who had a contract in effect on January 1, 1997.

FY06 Recommended Changes

- ❑ *On January 30, 2005, the Pike Store reverted to County operation. The estimated reversion date for the Muddy Branch Store is March 27, 2005. In FY06, there will be 24 County-staffed and operated retail stores and the Flower Avenue store will be the only contractor-staffed and operated store in Montgomery County.*

	Expenditures	WYs
FY05 Approved	660,000	0.0
FY06 CE Recommended	185,100	0.0

Community Outreach

This program defines issues and strategies and monitors efforts with various agencies, departments, civic organizations, businesses, and individuals to provide and coordinate innovative programs and measures to ensure safe and vibrant communities relative to the service and consumption of beverage alcohol.

FY06 Recommended Changes

- ❑ *A Program Manager Position has been added to assist the Community Outreach Manager in meeting with the public, making presentations, and designing and assessing new programs.*

	Expenditures	WYs
FY05 Approved	99,090	1.0
FY06 CE Recommended	157,570	1.8

Accounting and Inventory Systems

This program provides accounting and financial services for the department. Staff performs day-to-day accounting functions, special analysis and reporting, and the preparation and monitoring of the department's budget.

FY06 Recommended Changes

	Expenditures	WYs
FY05 Approved	1,976,010	19.1
FY06 CE Recommended	1,915,310	19.1

Information Management

This program provides for the operation, maintenance, and protection of all information technology initiatives of the department. These initiatives include, but are not limited to, the warehouse inventory system, the retail point-of-sale system, and numerous personal computer applications.

FY06 Recommended Changes

	Expenditures	WYs
FY05 Approved	6,315,300	9.6
FY06 CE Recommended	1,375,120	9.6

Administration

This program provides overall direction, administration, and supervision for the department.

FY06 Recommended Changes

	Expenditures	WYs
FY05 Approved	687,910	2.5
FY06 CE Recommended	750,450	2.5

BUDGET SUMMARY

	Actual FY04	Budget FY05	Estimated FY05	Recommended FY06	% Chg Bud/Rec
LIQUOR CONTROL					
EXPENDITURES					
Salaries and Wages	12,441,882	12,800,080	13,056,270	14,342,490	12.1%
Employee Benefits	3,682,396	4,365,750	4,466,260	5,156,770	18.1%
Liquor Control Personnel Costs	16,124,278	17,165,830	17,522,530	19,499,260	13.6%
Operating Expenses	8,229,769	14,626,510	16,050,980	9,871,740	-32.5%
Capital Outlay	632,431	543,000	669,680	592,000	9.0%
Liquor Control Expenditures	24,986,478	32,335,340	34,243,190	29,963,000	-7.3%
PERSONNEL					
Full-Time	233	234	234	242	3.4%
Part-Time	55	55	55	60	9.1%
Workyears	292.2	293.2	293.2	321.2	9.5%
REVENUES					
Miscellaneous/Investment Income	4,712	0	49,400	80,000	—
Operating Revenue	48,380,783	49,298,480	50,330,000	52,867,000	7.2%
Liquor Control Revenues	48,385,495	49,298,480	50,379,400	52,947,000	7.4%

FY06 RECOMMENDED CHANGES CROSSWALK

	Expenditures	WYs
LIQUOR CONTROL		
FY05 ORIGINAL APPROPRIATION	32,335,340	293.2
<u>Changes (with service impacts)</u>		
Add: Personnel Staffing of Two Contract Stores [Retail Sales Operations \$726,740] and [Retail Contracted Operations \$488,400]	238,340	12.2
Enhance: Community Outreach Position - Program Manager [Community Outreach]	50,410	0.8
<u>Other Adjustments (with no service impacts)</u>		
Increase Cost: Debt Service - Controlled Environment Whse. [Accounting and Inventory Systems]	861,000	0.0
Increase Cost: FY06 Compensation	594,450	0.0
Increase Cost: Annualization of FY05 Personnel Costs	290,010	0.0
Increase Cost: FY06 Group Insurance Rate Adjustments	220,030	0.0
Increase Cost: Utilities	214,000	0.0
Increase Cost: Store Rent [Retail Sales Operations]	211,540	0.0
Increase Cost: FY06 Retirement Rate Adjustments	207,110	0.0
Increase Cost: Risk Management Chargebacks	168,560	0.0
Increase Cost: Beer Loading Contractor Fees [Warehouse Operations]	166,500	0.0
Increase Cost: Overtime	138,150	2.9
Increase Cost: Floor Covering in Ten Retail Stores [Retail Sales Operations]	80,000	0.0
Increase Cost: Telephone Ordering System [Information Management]	50,000	0.0
Increase Cost: Part Time Personnel - Additional Workyears/Wholesale Group Position [Warehouse Operations]	33,820	1.2
Increase Cost: Motor Pool Charges	29,260	0.0
Increase Cost: Annualization of FY05 Operating Expenses	29,250	0.0

	Expenditures	WYs
Increase Cost: Reclassification of Truck Driver Substitutes	25,960	0.0
Increase Cost: Records Management Fee [Administration]	25,280	0.0
Increase Cost: Retail Administrative Personnel [Retail Sales Operations]	25,220	0.6
Increase Cost: Shift Differential [Warehouse Operations]	21,530	0.0
Increase Cost: Printing & Mailing	20,000	0.0
Increase Cost: Advertising [Retail Sales Operations]	15,000	0.0
Increase Cost: Contract Store Commissions [Retail Contracted Operations]	13,500	0.0
Increase Cost: Leisure World Store Layout [Retail Sales Operations]	8,000	0.0
Increase Cost: Part-time Liquor Store Clerk I - Group Position - Technical Adjustment [Retail Sales Operations]	0	10.3
Decrease Cost: Solid Waste System Benefit Charge Adjustment	-9,920	0.0
Decrease Cost: Printers [Information Management]	-14,000	0.0
Shift: Warehouse Debt Service from Operating Expense to Transfer Fund [Accounting and Inventory Systems]	-1,050,000	0.0
Decrease Cost: Elimination of One - Time Items Approved in FY05	-5,035,340	0.0
FY06 RECOMMENDATION:	29,963,000	321.2

FUTURE FISCAL IMPACTS

Title	CE REC. FY06	FY07	FY08	(S000's) FY09	FY10	FY11
This table is intended to present significant future fiscal impacts of the department's programs.						
LIQUOR CONTROL						
Expenditures						
FY06 Recommended	29,963	29,963	29,963	29,963	29,963	29,963
No inflation or compensation change is included in outyear projections.						
Annualization of Positions Recommended in FY06	0	33	33	33	33	33
New positions in the FY06 budget are generally assumed to be filled at least two months after the fiscal year begins. Therefore, the above amounts reflect annualization of these positions in the outyears.						
Elimination of One-Time Items Recommended in FY06	0	-151	-151	-151	-151	-151
Items recommended for one-time funding in FY06 which include; records management fee, telephone ordering system, floor covering in ten retail stores, and changes to the Leisure World store layout will be eliminated from the base in the outyears.						
Labor Contracts	0	829	979	979	979	979
These figures represent the annualization of FY06 increments, general wage adjustments, and associated benefits. Estimated compensation (e.g., general wage adjustment and service increments) for personnel are included for FY07 and beyond.						
Controlled Environment Beer Warehouse - Debt Service Transfer	0	861	861	861	861	861
This is the debt service for the controlled environment beer warehouse expansion that is programed to begin in FY06.						
IT Maintenance	0	140	145	152	160	160
Hardware and Equipment.						
IT Support	0	50	50	50	50	50
Outside Support and Assistance.						
New Retail Store in Each Year, FY07 - FY10 - Sites to be Determined	0	415	755	1,095	1,435	1,435
Temperature Controlled Liquor Warehouse (Maintenance & Utilities)	0	216	219	222	225	225
Subtotal Expenditures	29,963	32,356	32,854	33,204	33,555	33,555

FY06-11 PUBLIC SERVICES PROGRAM: FISCAL PLAN

LIQUOR CONTROL

FISCAL PROJECTIONS	FY05 ESTIMATE	FY06 REC/APP	FY07 PROJECTION	FY08 PROJECTION	FY09 PROJECTION	FY10 PROJECTION	FY11 PROJECTION
ASSUMPTIONS							
Indirect Cost Rate	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
CPI (Fiscal Year)	2.8%	2.6%	2.6%	2.6%	2.5%	2.5%	2.6%
Investment Income Yield	0.0215	0.03	0.0375	0.0425	0.0465	0.05	0.0525
Net Sales Increase Per Year	0	0	0.055	0.055	0.055	0.055	0.055
BEGINNING FUND BALANCE	5,359,250	991,950	2,227,190	1,838,910	1,175,880	1,410,810	2,594,810
REVENUES							
Charges For Services	50,379,400	52,947,000	54,351,540	55,781,820	57,193,120	58,639,200	60,169,400
Subtotal Revenues	50,379,400	52,947,000	54,351,540	55,781,820	57,193,120	58,639,200	60,169,400
INTERFUND TRANSFERS (Net Non-CIP)	(20,503,510)	(21,748,760)	(22,822,910)	(24,037,850)	(24,211,190)	(24,368,200)	(24,531,190)
Transfers To Debt Service Fund	0	(1,050,000)	(1,050,000)	(1,050,000)	(1,050,000)	(1,050,000)	(1,050,000)
Transfers To The General Fund	(20,503,510)	(20,698,760)	(21,772,910)	(22,987,850)	(23,161,190)	(23,318,200)	(23,481,190)
Indirect Costs	(1,716,580)	(1,949,930)	(2,032,780)	(2,047,790)	(2,047,790)	(2,047,790)	(2,047,790)
Earnings Transfer	(18,748,830)	(18,748,830)	(19,740,130)	(20,940,060)	(21,113,400)	(21,270,410)	(21,433,400)
TOTAL RESOURCES	35,235,140	32,190,190	33,755,820	33,582,880	34,157,810	35,681,810	38,233,020
CIP CURRENT REVENUE APPROP.	0	0	0	0	0	0	0
PSP OPER. BUDGET APPROP/ EXP'S.							
Operating Budget	(34,243,190)	(29,963,000)	(29,963,000)	(29,963,000)	(29,963,000)	(29,963,000)	(29,963,000)
Debt Service: Other (Non-Tax Funds only)	0	0	(861,000)	(861,000)	(861,000)	(861,000)	(861,000)
Labor Agreement	n/a	0	(828,550)	(978,640)	(978,640)	(978,640)	(978,640)
One time Items	n/a	n/a	150,640	150,640	150,640	150,640	150,640
New Stores	n/a	n/a	(415,000)	(755,000)	(1,095,000)	(1,435,000)	(1,435,000)
Subtotal PSP Oper Budget Approp / Exp's	(34,243,190)	(29,963,000)	(31,916,910)	(32,407,000)	(32,747,000)	(33,087,000)	(33,087,000)
OTHER CLAIMS ON CASH BALANCE	0	0	0	0	0	0	0
TOTAL USE OF RESOURCES	(34,243,190)	(29,963,000)	(31,916,910)	(32,407,000)	(32,747,000)	(33,087,000)	(33,087,000)
YEAR END FUND BALANCE	991,950	2,227,190	1,838,910	1,175,880	1,410,810	2,594,810	5,146,020
END-OF-YEAR RESERVES AS A PERCENT OF RESOURCES	2.8%	6.9%	5.4%	3.5%	4.1%	7.3%	13.5%

Assumptions:

1. Ending cash balance = One month's Operating Expenses, One Payroll, and \$1.5M for inventory.
2. Net Sales growth estimated at 5% per year.
3. Operating Revenue growth estimated at 5% per year.
4. Operating Expenses grow with Major Known Commitments and not CPI.
5. No new store added in FY05 or FY06.
6. The labor contract with the Municipal and County Government Employees Organization, Local 1994 expires at the end of FY07.
7. The transfer to debt service of \$1,050,000 is for the Temperature Controlled Warehouse expansion that is programmed to begin in FY06.

LIQUOR CONTROL

PROGRAM:

Retail Operations

PROGRAM ELEMENT:
PROGRAM MISSION:

To provide efficient, customer-friendly retail stores that compete successfully with stores in surrounding jurisdictions both in price and selection; that comply with all laws; and that return a reasonable transfer to the General Fund

COMMUNITY OUTCOMES SUPPORTED:

- Provide high quality, high value service to customers
- Foster respect for all County, State, and Federal laws
- Provide a reasonable transfer to the General Fund to assist in supporting other County services

PROGRAM MEASURES

	FY02 ACTUAL	FY03 ACTUAL	FY04 ACTUAL	FY05 BUDGET	FY06 CE REC
Outcomes/Results:					
Gross profit (\$000)	19,359	20,960	22,671	23,152	24,318
Net income (\$000) ^a	7,326	7,801	8,519	8,265	7,925
General Fund transfer (\$000) ^b	7,609	6,963	6,984	6,984	6,984
Service Quality:					
Board of Liquor License Commissioners inspection violations	1	2	0	0	0
Montgomery County Police Department inspection violations	2	0	0	0	0
Percentage of customers satisfied with customer service offered ^c	96	96	96	100	100
Percentage of customers satisfied with facility and design ^c	93	94	94	100	100
Percentage of customers satisfied with product selection ^c	91	89	93	100	100
Percentage of customers satisfied with product pricing ^c	87	87	92	100	100
Efficiency:					
Gross profit per dollar of labor costs (\$)	3.21	3.37	3.39	3.29	3.04
Sales per dollar of gross profit (\$)	3.11	3.13	3.13	3.20	3.20
Sales per dollar of net income (\$)	8.22	8.40	8.34	8.97	9.83
Sales per dollar of operating expenses (less depreciation) (\$)	5.08	5.05	5.08	4.88	4.56
Workload/Outputs:					
Sales (\$000)	60,235	65,512	71,024	74,170	77,910
Cases transferred in (000) ^d	686	734	772	795	820
Inputs:					
Operating expenses excluding depreciation (\$000)	11,848	12,962	13,990	15,187	17,079
Labor costs including salaries and benefits (\$000)	6,040	6,223	6,691	7,038	7,994
Workyears	117.0	120.0	125.1	125.1	150.5

Notes:

^aBased on Generally Accepted Accounting Principles (GAAP): revenues are recorded when earned; expenses are recorded when liabilities are incurred; capital outlay is excluded; depreciation is included.

^bEstimate of total transfer attributed to retail operations.

^cIn the fall, postage-paid surveys are placed in customers' bags at checkout. Each store receives about 1,500 surveys to be distributed. In 2002, 1,237 surveys were returned from the 24 stores; in 2003, 888 were returned; and in 2004, 795 were returned.

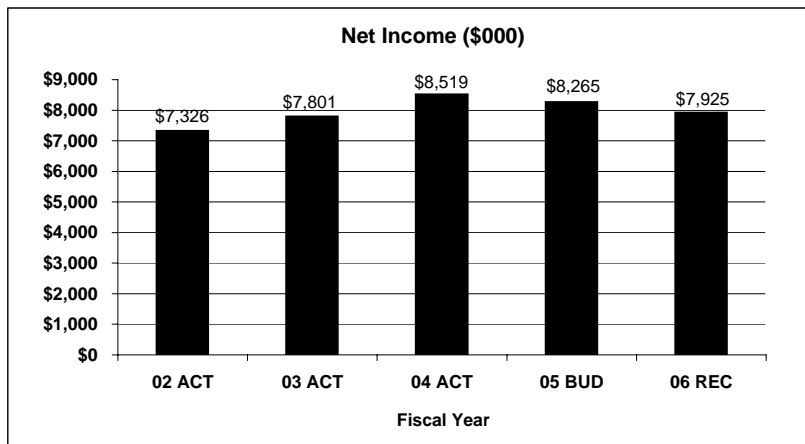
^dThis is the number of cases transferred to Department of Liquor Control liquor stores to be sold.

EXPLANATION:

Retail Operations consists of contractor and County-managed stores, plus a pro-rata share of other Department of Liquor Control functions (Office of the Director, Community Outreach, Finance, and IT).

In March, 2004, the County added a new retail store, making the total 25. In January, 2005, the Pike store reverted to County management, and in March, 2005, the Muddy Branch store reverted to County management. Currently, only one store is contractor-managed.

While gross profit has been increasing steadily, net income is projected to decline in FY05 and FY06 when the Department of Liquor Control undertakes new investments in computer upgrades.



PROGRAM PARTNERS IN SUPPORT OF OUTCOMES: Finance Department.

MAJOR RELATED PLANS AND GUIDELINES: Federal, State, and County laws; Generally Accepted Accounting Principles.

LIQUOR CONTROL

PROGRAM:

Wholesale Operations

PROGRAM ELEMENT:
PROGRAM MISSION:

To ensure the availability and delivery of beer, wine, and other beverage alcohol to wholesale licensees and retail stores at reasonable prices, in good condition, and in a manner that complies with all laws and returns a reasonable transfer to the General Fund

COMMUNITY OUTCOMES SUPPORTED:

- Provide high quality, high value service to customers
- Foster respect for all County, State, and Federal laws
- Provide a reasonable transfer to the General Fund to assist in supporting other County services

PROGRAM MEASURES

	FY02 ACTUAL	FY03 ACTUAL	FY04 ACTUAL	FY05 BUDGET	FY06 CE REC
Outcomes/Results:					
Gross profit (\$000)	23,074	23,987	25,694	27,178	28,549
Net income (\$000) ^a	14,179	13,535	14,909	14,692	14,089
General Fund transfer (\$000) ^b	14,726	12,115	13,517	13,517	13,517
Service Quality:^c					
Percentage of customers satisfied with employees' friendliness and professionalism	88	84	93	100	100
Percentage of customers satisfied with level of customer service provided	65	79	74	100	100
Percentage of customers satisfied with product integrity ^d	87	86	84	100	100
Percentage of customers satisfied with product selection	85	80	80	100	100
Efficiency:					
Gross profit per dollar of labor costs (\$)	2.84	2.67	2.72	2.68	2.48
Sales per dollar of gross profit (\$)	3.89	3.82	3.78	3.77	3.77
Sales per dollar of net income (\$)	6.33	6.76	6.52	6.97	7.64
Sales per dollar of operating expense (less depreciation) (\$)	10.52	9.20	9.37	8.94	8.35
Workload/Outputs:					
Sales (\$000)	89,817	91,527	97,148	102,427	107,590
Cases sold (000)	3,945	3,891	4,026	4,642	5,340
Inputs:					
Operating expenses excluding depreciation (\$000) ^e	8,536	9,950	10,368	11,456	12,884
Labor costs including salary and benefits (\$000)	8,123	8,976	9,433	10,128	11,505
Workyears	157.0	166.0	167.1	168.1	172.8

Notes:

^aBased on Generally Accepted Accounting Principles (GAAP): revenues are recorded when earned; expenses are recorded when liabilities are incurred; capital outlay is excluded; depreciation is included.

^bEstimate of earnings transfer attributed to wholesale operations.

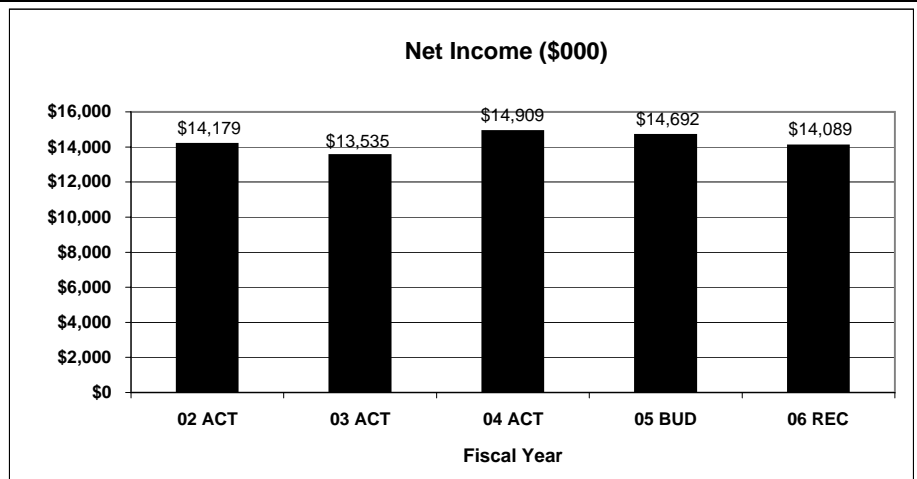
^cSurveys are mailed to all wholesale customers every fall to gauge satisfaction in the four key areas shown. About 850 are mailed out each year (the number depends on the number of active licensees), and the number of responses has ranged from 242 (in 2001) to 78 (in 2003).

^d"Product integrity" encompasses a number of characteristics that affect the saleability of the product when it arrives at the customer's establishment - cleanliness, damage, within-code date, etc.

^eOperating expenses include the night loading contract.

EXPLANATION:

Wholesale Operations consists of Warehouse Operations and Delivery Operations, plus a pro-rata share of other Department of Liquor Control functions (Office of the Director, Community Outreach, Finance, and IT). The Warehouse Operations portion involves management of the warehouse facility and includes receipt, storage, and loading of distilled spirits, wine, and beer. Delivery Operations includes the distribution of distilled spirits, wine, and beer to approximately 870 private retailers and 25 County stores. (The 25th store was opened in March, 2004.) While gross profit has been increasing steadily, net income is projected to decline in FY05 and FY06 when the Department of Liquor Control undertakes new investments in computer upgrades and physical improvements in the warehouse.



PROGRAM PARTNERS IN SUPPORT OF OUTCOMES: Finance Department.

MAJOR RELATED PLANS AND GUIDELINES: Federal, State, and County laws; Generally Accepted Accounting Principles.